

Issue

4

JULY 2008

Fourth Issue



IAFEI Quarterly

*The electronic professional journal of IAFEI
(International Association of Financial Executives Institutes)*

IAFEI Quarterly, Fourth Issue, July 4, 2008

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July 4, 2008

Letter of the Chairman

Dear Financial Executive,

You now receive, the **Fourth IAFEI Quarterly**, that is the electronic professional journal of IAFEI. This journal is the internal information tool of our association, destined to reach the desk of each financial executive who is member of a national financial executives institute, which itself is a member of IAFEI.

Several IAFEI member institutes have again contributed to this Issue with own articles. As with each IAFEI Quarterly issue, I again encourage all the other IAFEI member institutes, which have not yet contributed articles, so far, to this journal, to do so from here on.

Never forget, this is *your* IAFEI Quarterly. The heart of IAFEI are the individual national member institutes of financial executives. IAFEI itself has not an organization of its own, due to the smallness of its financial means, a concept, which our founding fathers have so designed.

Also, I repeat to say, what I said about all previous IAFEI Quarterlies: There is still plenty of room, for change and for improvement, in the future upcoming IAFEI Quarterlies. So please let us have your comments, opinions and suggestions for improvement. We are open to change, and we are eager to put into practice your upcoming suggestions.

In the past quarter, IAFEI was able to establish the new **IAFEI Task Force Rating**. The IAFEI member institutes from China, France , Germany, Italy, the Philippines are joining forces to make this Task Force achieve results. For more information see the chapter IAFEI news.

The multi-faceted **financial crisis** continues to be with us, with ups and downs, making room to one another over time. Much longer than originally anticipated, this crisis is with us. The world continues to watch with surprise, the magnitude of what has gone wrong, and what has been produced in the financial arena, without giving sufficient attention to the concomitant risks. News of doom and news of hope do dominate the media all the time. The financial executive, no matter in which field active, must stand strong and level headed in such a time. Fortunately, the real economy, beyond the financial sector, in most countries around the world, is in relatively good shape, so that this financial crisis, as bad it is, has not worn down, and hopefully will not wear down in the future, the world economy. I therefore join those, who are confident, that solutions will be found and that this crisis will be overcome.

During this quarter, and during this half-year, which both have just begun, **IAFEI is offering two major events to the financial executive:**

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In Taipei, Chinese Taiwan, on September 5, 2008, the **Asia Pacific IAFEI CFO Summit** will be held. Our member institute, the Financial Executives Institute of Chinese Taiwan, is organising this one day conference, thereby servicing the worldwide IAFEI association, for what IAFEI is thankful. For further information see www.iafei.org.

In Paris, France, on December 14-17, 2008, the **XXXIX. IAFEI World Congress** will be held. Our member institute D.F.C.G., the financial executives institute of France is organizing this 2008 world event of IAFEI, thereby servicing the worldwide IAFEI association, for what IAFEI is thankful. For further information see www.iafei.org.

To all of you, I wish rewarding new insights, when reading this Fourth IAFEI Quarterly. And I look forward to meeting many of you financial executives in **Taipei** and in **Paris**.

With best personal regards

Your Chairman IAFEI

Helmut Schnabel

Risks and Opportunities



Speech by John Snow, Former Treasury Secretary of United States for 2008 China CFO Forum , at Westin Hotel, Beijing, China, May 7, 2008.

Hello, everybody. I'm delighted to be here and have this opportunity to address to you all.

I recently met with the chairman of the Security Commission, and told him that I would be speaking on the CFO forum. He said that's a very important forum because CFOs of China will help lead the financial modernization of our country. They play a critical role in restatement and they play a critical role in transparency. Capital markets hand down transparency, they hand down trust. Trust is a hard thing built as a part of integrity of those financial statements in your organization, integrity of income, cash flow and balance sheet. Capital markets, equity markets, justly can't function well unless the rest of public has confidence in those statements. So what do you do as CFOs? What this forum does in promoting the role of CFOs in your country is absolutely critical to the future.

Now let me tell you a little story about America. In the United States, the treasury secretary plays the central role, the key role on the economic policy, on cash, on regulations of financial markets, on budgets. And any treasury secretary must learn to say "no", because every other cabinet agency have lots of good proposals, they have lots of worthwhile plans that they want to be done. They want you to approve their budgets. But the problem is if the treasury secretary approves all of those proposals, he'll break the bank, he'll break the treasury. So every good finance minister becomes doctor "no", the person who says "no". And treasury secretary or finance minister, who is popular with his colleagues, will probably not say "no" enough. And the result of that will probably be a big deficit and a high debt rate.

The same thing is true for CFOs. The treasury secretary in the finance ministry is like CFOs in the company. So I have great worships with all of you who act to be doctor "no" in your company. For many years before I went to the Treasury Department, I was the CEO of a big American transportation company. The person I relied on the most, the person I listened to most carefully, the person whose judgment I always relied on, was the CFO. The CFO plays the absolutely critical role in the company of evaluating risks, of looking at the capital expenditures, and asking the questions: Does this make sense? Does this capital expenditure produce returns? Use your cash flows with transitional property, does it justify that investment? That is hard work. It's difficult work. In the years to come in your company, there're lots of people who have good projects, but you have to say, "no, I'm afraid that does not meet our income return ratio." or "sorry, you've just got to have enough capital to do that."

The other thing that CFOs actually do is making sure that the numbers come in right.

The numbers getting reported properly is the central function of CFOs. They make sure that the income is stated properly, the balance sheet is stated properly and so on. But that doesn't get on the work that happened in the United States, with Enron, and with a number of Worldcoms, and a number of our companies. You saw what happened. American investors lost confidence in the capital market, and they began to hold back.

And it was only because our Congress is active to restore the chorus by the Sarbanes-Oxley Bill which you talked about. They want it be done because the financial statement was not reported properly, the financial statement was not reported correctly, which shows the importance of CFO doing their jobs right.

Sometimes CFOs have to have courage, sometimes CFOs have to say to the operating division, "you can't report income and revenue in that way, and you must recognize those expenditures at current cost." Only when CFOs do their job, it is the corporate capitalism at work, only when the capital markets have integrity.

So I salute to all of you, for the critically important work you are doing. It's the work of building modern financial market in China. You are taking China down a path with all the enormous promise in the future because China developed its financial market further using more energies of this, gave a free economy, helped to facilitate even stronger, more stable growth in the years ahead.

Let me take a minute and talk about an issue that I know is on your mind. That is the question of the financial turmoil in the US today, and the effects of that financial turmoil on growth and prosperity, and American expansion, now we know improved, is in the significant slowing down period. They may not make recession, but significantly lower the growth, I think, for about 1 or 2 quarters. But at least it will not affect China, like in the meantime it'll have an affect on Europe and the rest of the world. Because there is this property bubble, in America and the rest of the world, when you have an economy large as United States, and it slows down, then this has effects on China permanently and on Europe. It is the same today because your exports to United States are growing fast. The growth rate is high in the year 05, 06, and most of them go up. So what's going on? What's happened?

Let me try to offer you a brief summary of what has happened in the United States. Basically, for a number of years, Americans were able to get access to credit on easy terms at low interest rates both at the long end of the yield curve and the short end of the yield curve. With the low interest rates, asset values went up. One sets an asset value at valuable houses, and houses became a source of liquidity. For the first time ever in American economic history, that house which is built with the asset one hard to get behaves like an ATM machine, you get money from the house and you consume. How do you take money out of your house? You put money from your house by going back to the bank and say to the bank, "this house is rising in value, it's now worth a lot more, and I have more in lever to get a loan against that higher value." The banks said "yes". In too many cases, they said yes, yes, yes. The banks became the last who is looking at your ability of the borrower to pay the loan. The first job of any lender is to

ask the question: Are you able to pay the loan? Our banks forgot to ask that question. You know what they did, because they assumed houses prices will rise forever, like assuming young trees will grow forever, not grow for a while but grow forever. In the year upcoming, the house price can rise as they guess, but not grow forever. So the banks, the lenders, use a very seriously flawed model, a model that says the house price will rise forever. So they can give you a loan even if the rationale of that loan, the prime house price, looks a little suspicious. In the year upcoming the house price will become much higher, so the loan devalue rate is all right.

The banks became so anxious about the loan today and they began to do good critiques and the lending centers began what they do. And they had something that United States called interest only loan. Interest only loan is a loan that made equity success and suggests with no income, no job, and no asset. You know what happened. We wait, wait, wait until house prices rise. Sometimes, at some points, house prices start to lever off, they overbuilt houses. Firstly they rise, but now lever off and they are falling sharply.

Well, all that lending, all that paper issued, and then we pack it and sold in the financial market through security condition. All that paper is now under a big pressure of collapsing market value, so there is a big question about that paper. Tens of billions of dollars of that paper are being lost, along with the equity is lost. The bank of lending this paper along the equity is lost. The organizations like US Stock Exchanges and CIC play a very important role in America in recapitalizing its banks, and recapitalizing our banks resources with capitals, and become one of the world's most important resources of capital for the American banking system. As I just suggested we made a lot of mistakes in our lending process. We created too much debt, we created a lot of financial instruments in recent years and they got to read it, as if they were prime, super A, and now they did not get what they wanted.

Then many people in the New York and the rest of the nations, produced models in bundling sub-prime with prime, slicing pieces differentiated by risks. And they put it together and sold it out. They promised something which is too good to be true. They promised very high risk return for benefit risk. Well, if they invest in the worst opportunity for higher return and for more risk by the paper, that paper created from the United States and then moved all over the world is now on the balance sheet of the companies and misvalued and they happened to now recognize the nature of this work. But the big natural economic consequence about this is the assumption which is 70% of US economy depends on that, and if our consumption comes down and then our GDP comes down, and that has effects on the rest of the world.

The American economy is very brilliant. It always comes back. It always corrected its mistakes. In my sense, it'll be several quarters for slow growth in the United States. I think we'll avoid the recession, and our financial markets and credit markets will be on board, unfreezed and come back at all.

But today the real problem in United States is the condition of credits. Central market or the secondary market security is dried up. And it's the fact that brokers sell every asset, authorities of prime, which found the paper, now is gone to sell the paper, now is gone for credit cards, now is gone to all other forms of concerned loans.

If we go to great amendments in the United States, and we depend on credits, the right thing we could hold is serious and more downturn, that is why our Federal Reserve is so active in creating several tranches of quickly enhancing the liquidity of the balance sheets of the banks. They observed to recognize the real problem in the United States today is the credit market. The more interest only loans they get from markets only deserve so much, and direct the views in the facility, and of course the return will be in force.

I have confidence that the Federal Reserve will make the right move. I think they will be coming to end in this period with a more solicit base, and next year the economy will probably be focused on the return smoothly, because all this monetary accommodation is being received of future inflation. And I can perceive not too far later they will turn and move from currently moderate monetary policy with low interest rate to more strict policy with higher interest rate, because they're concerned about the expectation of getting integrity of the American economy.

So let me close here by quoting a famous British Prime Minister, who has an American mother and who has the basic opinion about United States. He said about the United States: *America always gets it right, after, after, only after it exhausted every other possibility.* For the last few years, we have been exhausted all other possibilities, so I think we are getting closer and closer to the right answer.

Let me close again by acknowledging the tremendous important work you do in those firms. You are part of building of modern China, and every great country like China will definitely build the financial markets at the corporate sector. But the corporate sector helps finance markets hand down, by good skills that you have and the source of discipline you bring to the capital markets and insistence on the honest statement and overview of risks, and the enterprises manage the risks in a healthy way. If you begin to do this, you make your contribution to the future wellbeing of this country.

Thank you very much for the opportunity to address here.

Article provided by CACFO, the Chinese IAFEI member institute

Article written from the living tape record of the speech. The quality of the record is in a few cases not very clear.

Lending to the poor, with interest? A revolution dating from the 15th century

Author: Emmanuel de Lutz,
Head of Group Microfinance, BNP Paribas

When people ask Muhammad Yunus - Nobel prize winner and Founder of the Grameen Bank - the interest rate he charges his borrowers, most interlocutors are surprised. How is it possible to intend to struggle against poverty thanks to microcredit and charge an interest rate over 20%? Is it not shocking to charge poor people that much?

Yunus does not wait for the question to explain: as a business, the Grameen Bank must cover its costs, i.e. pay its staff, its agency network and its computer infrastructure to cover a large amount of small and scattered clients. Even if losses with poor borrowers are minimal (2 to 3%), the cost of the risk must be integrated. The main expectation of the clients is to have access to credit, which is not possible with normal banks, and in conditions well under those of users (50 to 100%). Lastly, as clients are also depositors and shareholders, they are directly interested in the solidity and success of their microfinance bank.

The debate over the economic model - charity or business - is as old as finance itself. Is it fair for a social business to make profit? If not, how is it possible to find a durable economic model? If it is, what is the fair profit rate? Can finance history help us with this ethical as well as economical question?

Friedrich Raiffeisen is often quoted as a pioneer of contemporary microfinance. His action as a burgomaster of a small city in Rhineland and founder in 1849 of the "Society for helping impecunious farmers of Flammersfeld" greatly contributed to changing mentalities by providing the poor with financial means enabling them to be independent from public charity and to become masters of their destiny. But it is even more interesting to go back to the XVth century, in Italy at the time of Leonardo da Vinci and the Medici, where the development of pawnshops caused a real revolution in interest rates, a revolution as important as the simultaneous discovery of the Americas.

Pawnshops are charitable credit institutions, which loan at very low interest rates against pawned objects. They developed under the influence of Franciscans, particularly Barnaby di Terni and Bernardino di Feltre. The first pawnshop opened in Perugia in 1462, and the idea spread over the north of Italy, especially in Siena (1472), Genoa (1480), Milan (1483), Mantua and Florence (1484). Long before Italy, a first pawnshop had been created in London in 1361 by Bishop Michael Northburgh, but it did not last very long because it loaned without interest...

The development of pawnshops gave rise to a real dispute between theologians, which had to be settled at the top level of the Church, not only by a papal bull, but also by the decision of a council. In short, Franciscans who lived in deep poverty favoured pawnshops whereas Dominicans and Augustans, guardians of the dogma, were against.

What were the theses of the parties involved? Dominicans and Augustans supported the traditional stand of the Church, asserted during the Council of Lateran (1215), of Lions (1274) and Vienna (1312) forbidding loans with interest and threatening excommunication and accusations of heresy for anyone who would make such loans, thus restricting de facto this activity to Jewish bankers. They cited the Holy Writ, particularly Luke 6-35: "Love your enemies, and do good and lend, expecting nothing in return". They referred to Thomas of Aquinas, condemning loans with interest as a factor of injustice, and followed Aristotle's philosophy, considering money as a mere way of measuring exchanges. In fact, Aristotle makes the

essential difference between economics and what he calls “chrimastic”, accumulation of money for the sake for money, business against nature which dehumanizes those who practise it.

Faced with the authority of important philosophers or theologians, the Franciscans used both ethical and practical arguments. With a sharp sense of casuistry, they explained that a difference must be made between two contracts, one concerning the loan which must be free, the other concerning the keeping of the pawned object, which requires space and a responsibility, and thus a legitimate return. The failure of some pawnshops in London or in Italy provides an argument for a fair cost cover. They put forward reasons which were not linked to the nature of the contract: 1) *Damnus emergens*, loss suffered, 2) *lucrum cessans*, loss of a potential gain if the lender had kept his money and 3) *periculum sortis*, risk of not being reimbursed on time. They also emphasized the advantages for a poor borrower, with rates at 5% instead of 20 to 50% at usurers. Behind these reasonable arguments less acceptable reasons were sometimes hidden, namely competition with Jewish usurers to make them leave Italian cities since they could not be converted ...

The discussion was acrimonious for over 50 years within the Church. Some opponents to Montes Pietatis going as far as calling them “Montes impietatis”, like the Augustan monk Nicola Bariano, who wrote a book on the subject in 1494. One of the most convinced adversaries was the Head of the Dominicans, Tomaso de Vio, who later became the Cardinal Caetano and was major opponents of a rebellious Augustan monk named Martin Luther. On the other hand, some Dominicans, such as Savonarola in Florence, were convinced advocates of pawnshops.

As a last resort, the opponents called on Pope Leon X, son of Lorenzo da Medici. The latter had strongly supported the creation of a pawnshop in Florence to which he had allocated the amount of 500 florins from his own casket. Distinguishing interest rates from usurious rates, Leon X published the papal bull “inter multiplices” which recognised pawnshops as charitable institutions, the interest rate of which had to be reasonable i.e. cover the running costs.

The pope’s decision was ratified by the 10th session of the Vth Council of Lateran in 1515, which confirmed pawnshops’ legitimacy and threatened excommunication for those who opposed it.

In this context, the painting which illustrates this article is particularly interesting. It is an altarpiece painted in 1512 by Bartolomeo Mantegna for the Franciscan church of San Marco of Lonigo, near Vicenza and now exhibited at the Bode Museum in Berlin. On the right of the Virgin and the Christ Child, Saint Homobonus, wealthy Venetian merchant of the 12th century, distributes his money to the poor. On the left of Mary are Saint François di Assisi and his disciple Bernadino di Feltre, promoter of pawnshops. In the same painting, we see the traditional vision of charity with nothing in return and the very modern vision of microfinance, based on a sustainable economical miracle.

This painting symbolises and synthesises a major change of moral and economic model, until then founded on a double paradigm:

- 1) interest rate = usury = heresy
- 2) charity = gift with no return = virtue.

From 1462, and moreover after the Council of 1515, thanks to these revolutionary Franciscans, a new model was born. Usury continued to be condemned through the centuries, for example by the encyclics *Vix Pervenit* (1745) and *Rerum Novarum* (1891). On the contrary, the principle of an interest rate as a fair return for a service and a risk taken was accepted. The loan with interest, if it remained reasonable, was (almost) considered as fair as charity with nothing in return.

When Kofi Annan, then Secretary General of the United Nations, stated during the year of microcredit in 2005: “microfinance is not charity but a real business”, his viewpoint met that of the Franciscans. The quest for a social impact does not mean freedom from economic

constraints. On the contrary, integrating these economic constraints with an extreme strictness (cost and risk management) can maximise the social impact, the *raison d'être* of microfinance.

Emmanuel de LUTZEL



Article provided by Article provided by DFCG, the French IAFEI member institute

Remodelling and Dialoguing about it with Investors

The Bayer AG has been fundamentally remodelled in the past years: For over 42 billion Euro the chemical group has taken over, respectively sold, corporations and businesses. A large scale project, also as regards communication with the capital markets.

Article written by Mr. Klaus Kühn, Member of the Board of Management, and CFO, of Bayer AG. In Addition member of the Board of Management of the Association of Chief Financial Officers Germany.

Listed corporations are in a constant dialogue, today, with the capital market. The interaction with investors, analysts, rating agencies, is the day to day business. Such interaction is even more important when making decisions about the portfolio, which have transformatory character for the company group. The job is, here, to convince the markets of the transactions and to show them their perspective for the future.

For Bayer, a fundamental transformation process started in 2002, aiming at the “New Bayer”. Throughout several steps, the portfolio of the formerly integrated chemical-pharmaceutical company group was modified into a strategic management holding with three independent operating sub-groups. In this context, companies and businesses for over 42 billion Euro were purchased, respectively sold. For instance, in 2003, the mature chemical and polymer activities have been de-merged and put together under the roof of the new Lanxess AG; in 2004, the consumer-health-business of Roche has been taken over, as well as in 2006 the Schering AG.

In order to successfully explain such a portfolio transformation to the capital market, it is necessary from the beginning on, to have a clear, sustainable, and value creating corporate strategy. As a consequence, the basic logic of the acquisition of the consumer-health-business of Roche and of Schering, has been embedded in the existing strategic positioning of Bayer: Expansion of health care, further development of the business mix of prescription pharmaceuticals and consumer-health-activities, as well as focus on the specialized doctors segment.

The consequential handling along the pre-defined and communicated strategic guideline created trust for the management in the capital market, increased its credibility and avoided surprises. It has been essential, that we have communicated, at the same time when we announced the takeover of Schering, as well the entire financing package for this interaction.

Communication of clear performance targets

For investors, when it comes to decisions about the portfolio, what counts first of all, is how these changes act on the future return performance. For this reason, Bayer has already communicated, at the beginning of the transformation process medium and long term performance targets for the group and for the sub-groups. For material acquisitions, such effects on these targets have been quantified. By way of our regular, and detailed, financial reporting, the investors are in a position, to clearly understand the attainment of our targets.

For the future development, of the company group, the pharma research pipeline is of essential importance. In the case of material measures regarding the portfolio, such as for instance the takeover of Schering, it is therefore necessary, to make clear the implications on the research and development strategy. For this reason, Bayer makes it transparent for the capital market, how the research pipeline is developing.



Better portfolio, higher market capitalization

A clear, value oriented corporate strategy, stringency in action, competency to carry out concepts, as well as solid confidence in the capital market are key factors for a successful communication with the capital market. A well managed investor relations program is absolutely necessary, which clearly explains the strategy and which efficiently steers the market expectations.

At Bayer, we act accordingly, and the success shows us, that we are doing right. The quality of our portfolio is being improved permanently. Whereas, in 2002, about 33 % of turnover has been achieved in the health care business, it was in 2007 already 48 %. The profitability has been enhanced considerably: The operating profit (EBIT) before special effects, has more than quintupled. The successes and the stringent communication policy have also been honoured by the capital market: the market capitalization of Bayer, since the end of 2002, when it was roundabout 14 billion Euro, has presently more than tripled to round about 43 billion Euro.

Article produced by Mr. Klaus Kühn. Article also appeared in Frankfurter Allgemeine Zeitung, July 1, 2008, on the occasion of the 20th anniversary of the creation of the German Stock Index "Dax".

Article provided by GEFIU, the German IAFEI member institute, "Association of Chief Financial Officers Germany"

Translated by Helmut Schnabel

Signs of Market Inflection Point after Flirting with Financial Armageddon

Author: Eduardo H. Yap

Article from: Business, The Philippine STAR, April 30th, 2008

Armageddon: The world flirted with financial Armageddon in March 2008 when one of the world's largest investment banks Bear Sterns was tumbling into bankruptcy. At that point, the global financial system was already weakened by the worst US financial crisis since the Great Depression in the 1930s. A "financial nuclear winter" would have hit the US economy if Bear, reportedly a counter-party to some \$10 trillion of over-the-counter financial derivative transactions, was not rescued on March 16 and allowed to fail. The consequences to the US and the world would have been unimaginable considering that the total credit-default swaps generated by the financial community amounted to a ridiculous \$41 trillion. The disastrous 1997 Asian financial crisis, which caused economic dislocation and massive wealth destruction in the region, including the Philippines, would have seemed like a picnic in comparison.

Inflection point: By April 25, 2008, or barely over a month back from the precipice and amid the pervading doom and gloom, there are signs, albeit early and possibly tenuous, of optimism. When taken together, these indicators (listed below) show a compelling picture that risk aversion and flight to quality have abated. The market appears to be at an inflection point. In a classic disconnect, the financial market is reviving and starting to decouple from the still wobbling real economy in the United States, which is the epicenter of the crisis. Among the most telling indicators of improved sentiment is the recent dramatic decline of government bond prices, particularly of US Treasury bills and notes, and Japanese bonds. Inversely, yields have soared. The price of these debt instruments were previously driven up sharply by a mass flight by jittery investors to this safe haven investment. This recent Japanese bond action may be a bonus, as it points to the end of the stubborn decade-long deflationary trend in Japan. This may spur more consumer spending in Japan that will help lift the global economy, further bolstering bullish market sentiment.

Global contamination. The crisis ensued when the giant US housing bubble started to burst in 2005. Rising delinquencies and foreclosures of home mortgages became evident by March 2007. A few months later the market for subprime home mortgage-backed securities and their financial derivatives collapsed. The credit market in the US and Europe became dysfunctional. The cost of credit, if it was available, soared. As the crisis worsened, there was mistrust among banks. Cash was hoarded and lending curtailed. The infection spread to a gamut of credit instruments. Banks were stuck with leveraged buyout loans. Auction rate municipal bonds failed. Business transactions and investments, including mammoth urban redevelopment projects throughout the US, were postponed or scrapped. The US caught a most virulent strain of financial flu with the virus spreading globally to Europe and Asia.

Fallout on Philippine market: Investors fled the Philippine stock market, which became among the biggest losers in the emerging market. Prices of dollar-denominated government bonds fell and, as a consequence, the yield expectation of lenders rose. Credit-default swaps (CDS), the cost to buy a form of insurance against default, rose sharply. Only when conditions improve in the locus of the crisis, the US, will the situation improve in the Philippines. Will the country reap the full benefits of a global recovery? Read below.

Fed measures. Market sentiment had significantly improved after the Bear Sterns rescue on March 16 and emergency measures undertaken by chairman Ben Bernanke of the US Federal Reserve Board. Massive liquidity was injected and cost of funds was drastically slashed. The measures included an emergency three-quarter of a percentage point discount rate cut on Jan. 22 that was the largest one-time drop in 24 years and allowing brokers and dealers direct access to its discount window, a policy unused since the 1930s. The market is comforted that Sheriff Bernanke is vigilant and ready for action when needed. Discounting mechanism. The market, being a forward looking discounting mechanism, appears to be pricing-in the end of the credit crisis and the prospect of improving US economic conditions in the second half of the year. The end of the US interest rate cutting cycle is also being discounted. At the forthcoming April 30 policy meeting, the US Fed is expected to shift its focus from growth concerns and financial system stability to inflation watch. Bonds, stocks and currencies are being repriced.

Indicators.

Credit markets: On April 25, Japanese bonds suffered the biggest one-day selloff in five years that saw prices fall and, notably, yields of 10-year bonds rising to 1.65 percent. In turn, this prompted a wider same-day selloff in the global bond markets. Credit indices, particularly in the US and Europe, declined from their elevated levels. The exceedingly stiff US yield curve is now starting to flatten. The sharpest moves were made in the short 13-week and two-year US T-bills. The abnormally low yields at the short and intermediate ends are now rising and in the process, narrowing the previously very wide 400 basis point gap with the longer-dated Treasury notes and bonds. By April 25, the yield of 13-week T-bills had risen by more than 100 percent, or by 79 basis points, to 1.29 percent. A month ago on March 20, following the Bear Sterns fire sale, the yield of this same T-bill was driven down to 0.50 percent by the great demand from panicky investors. Another indicator is the narrowing yield spreads between benchmark US Treasuries and higher risk corporate bonds. The yields are converging with that of US Treasuries rising while those of higher risk corporate bonds falling nearly 150 basis points since the Bear Sterns crisis. Even the London interbank offered rate (LIBOR), the benchmark from which commercial lending rates are set, has started to fall. Credit default swaps have likewise declined.

US stock market. All the stock volatility indices have significantly improved. Vix, the broader US stock market "fear gauge", has gone down to the calmer 19.6 reading from the panic-high 37.5 in Jan. 22, 2008 when stocks were at their 52-week low. Adherents of the Dow Theory believe that the market is in a bull trend when the Dow Transportation Index rises in concert with the Dow Industrial Index, as it did recently. At the close of trading on April 25, US stocks reached a four month high. Significantly, when the Bear Sterns high tension drama was playing out in March stocks did not drop back to the January low, likely the trough for the year.

Foreign exchange. The unloved US dollar, previously battered down by sharply declining interest rates and the large US twin deficits, strengthened against most currencies. The yen fell from its 12-year high against the dollar that was reached at the height of the crisis on March 17. From only ¥95.76 needed to buy a dollar, it was ¥104.4 on April 25. The previously mighty Euro weakened from its high perch at 1.60 down to 1.55. Even the Chinese RMB moved back to seven to the dollar.

Similar pattern. This latest financial development shows a similar pattern that was manifest as early as Aug. 27, 2007 during the first leg of this crisis. Barely over a week after the Aug. 17 panic in global markets that prompted the US Fed to intervene, the market exhibited signs of returning investor confidence and declining risk aversion. From that point, the stock markets in the Philippines, US, HK and China, among others, staged a strong recovery and made new or multi-year highs in October. At that point, emerging market stocks achieved gains of about 40 percent from the August panic lows. Thereafter, the second leg of the crisis took hold. In

November, investors fled from two French hedge funds as it suffered severe losses in its holdings of subprime related securities. The market realized that the balance sheets of many banks throughout the world were loaded with these now loathed assets that were fast losing their value. Investors reacted predictably by pulling out their funds from risk assets. The market for subprime related securities disappeared and their value was difficult to fix. Stocks dove to their 52-week low in January 2008.

Early call. The first sign of spring from the financial winter, which did not attain nuclear intensity, came appropriately in early April at the onset of spring in the northern hemisphere where the financial turmoil started. Standard and Poor's (S&P), a credit rating agency, declared on March 13, 2008 that the end may be in sight for subprime mortgage writedowns and that the total may reach \$285 billion. This is a marked difference from the \$400 billion estimated by other analysts. Bernanke gave an estimate of \$100 billion in testimonies given last year at a congressional hearing. Understandably, the S&P view was met with scepticism as it was followed by declarations of four global financial giants of a further \$50 billion in write-downs in addition to the aggregate \$150 billion previously reported by the banking sector. But to the apparent relief of the market, subsequent writedowns show amounts tapering down. Total writedowns is now getting close to the estimate of S&P and, if accurate, is indeed near its end.

Bubbles and changed role. In the year 2000, the Internet bubble burst and coupled with the 9-11 attacks the US went into a recession in 2001. Fed Chairman Alan Greenspan responded by cutting interest rates to a 40-year low. That boosted housing and helped keep the recession shallow and short. But a housing bubble followed which caused the current downturn. Now it is chairman Ben Bernanke's turn and he brought down interest rates at a faster clip than his predecessor. This accommodation plus booming foreign sales to the emerging markets led by China and India are filling the gap left from the slumping domestic side of the US economy and putting a floor to its current downturn. Hopefully Bernanke's cure will not unnecessarily extend as Greenspan's did and create the next bubble — commodities.

Philippine benefit. The Philippine market dances to the music of the major markets and will benefit from a global market revival. But whether it will reap the full benefit is an open question. The country, along with some others, is in the midst of a serious food crisis arising from the shortage and high prices of rice in the international market. Crude oil is at a record high. Inflation is fast rising and becoming a serious economic and political concern. The government is throwing money at the problem and the negative effect of this on the fiscal position will not be lost on investors. Abandoning the fiscal balance target will continue to weaken the peso, which has already started to weaken from its recent high. A weaker peso will exacerbate inflation as cost of imported rice and inputs will cost more. Policy makers are in a quandary. Tightening monetary policy may help squelch inflation and put some floor on the peso slide but will raise cost of funds to business. All these come at a time when perception surveys show the popularity of the government at a very low level. This may constrain difficult policy options. Policy makers are now between a rock and a hard place. The fate of Philippine financials hinges on how the government handles the crisis.

A great contrast to Japan. The quick resolution of this global financial crisis, if indeed it takes hold as such this early, will be in sharp contrast to the more than decade-long malaise experienced by Japan after its own asset bubble burst in late 1989. This amazing and admirable development may be attributed to a large extent to the decisive measures taken by the US Fed and EU monetary authorities. New accounting rules that required the value of debt instruments to be "marked to market" instead of at cost also played an important role. This rule previously covered only listed equities. Many analysts blame this new rule for highlighting the damage wrought by the crisis and raising the fear level. But actually, the writedowns had positive effects. The disclosure of value writedowns of impaired securities brought the losses out into the open.

In turn this enabled the public to assess the health of financial institutions and helped rebuild confidence in the financial system. The quick recapitalization to bolster balance sheets, albeit achieved with significant dilution of share value, and top level management changes undertaken by the battered financial institutions were strong medicine. In contrast, Japanese institutions were less transparent and did not clean their balance sheets quickly enough. Mistrust and suspicion lingered to the detriment of their financial system. Other important lessons may be learned from this crisis but that is another topic that will require another article.

US headwinds. Some analysts scoff at this new found strength of the market as a “head fake”, a false spring in the nature of a rally within a bear market. This view is understandable given that the US, which is the global economic and stock market leader, is still facing strong economic headwinds. US house prices, off 20 percent so far, are in free fall, sales of new homes are down 40 percent and unsold new homes rose to the equivalent of 11 months supply, which is a three decade high. Loan defaults and foreclosures continue to rise. Many homes have negative equity and buyers may walk out of the mortgages. Job losses, especially in the large financial sector, continue and the unemployment rate is under pressure. The most recent reports show credit card debt delinquency on the rise and this plus auto loans are possibly the next shoes to drop. Consumer confidence, as surveyed recently by the University of Michigan, had fallen to a 26-year low. Optimists, on the other hand, believe that the market had already priced in all of this.

Spanner. A real or false spring? During the crisis, US financial stocks made multiple upswings of five percent or more yet is still deeply in the negative from its pre-crisis high. Pundits say this rally will fizzle out like the others. There is no question market environment will remain challenging and volatility will continue. But to bring the market back on its knees to the January 2008 low will require an event-driven shock to the markets such as if the price of crude oil shoots up farther beyond the already record high. This will likely occur if the word war with Iran over its troublemaking in Iraq turns into a shooting war. Or, if the US or Israel decides that the Iranian nuclear program has gone far enough and takes military action. Or, a major oil supply disruption occurs in other trouble spots. Or, if US consumers, groaning under a heavy debt load, record high gas prices and job insecurity, closes their wallets despite the tax-rebate checks. Or, if a large hedge fund blows out. All these are in the realm of possibilities. There will always be a wall of worry to climb. But that is when opportunities abound.

(The author, a certified public accountant, is a property developer and former chairman and president of the Subdivision and Housing Developers Association (SHDA). He presented an analysis of the 1997 Asian Financial Crisis at a forum by the Human Development Network on Nov. 4, 1998; published “A Tax-less Economic Growth” on Oct. 22, 2004, an analysis of the principal cause of the drastic decline in fiscal revenues that was cited by the Asian Development Bank in its 2004 Philippine Yearend Economic Review and “Is the Economy Overtaxed” on Dec. 1, 2004; featured in “Financial Analyst Proposes Novel Fiscal Measures” on Sept. 30, 2005, “The 1997 Asian Financial Crisis and 10th Anniversary Market Crashes, April 2007, “The Panic of 2007”, Sept. 3, 2007, in The Philippine STAR.)

For comments: feedback.edyap@gmail.com

Article provided by FINEX, the Philippine IAFEI member Institute

News: Latest Gloomy News / Comments, July 3, 2008, on Credit Crisis

Bloomberg, June 3, 2008 - Anshu Jain, head of global markets at Deutsche Bank AG, said the contagion triggered by the U.S. subprime mortgage collapse has erased more than a fifth of the banking industry's value and is "by no means over."

Jain, at a Euromoney conference in London today, said the crisis "has wiped out \$200 billion," or about 22 percent of U.S. banks' so-called tangible equity. That impact is similar to the combined effect on the insurance industry of Hurricane Andrew, the Sept. 11 attacks and Hurricane Katrina, he said.

"This banks crisis is really at a point where it equals the three biggest crises faced by the insurance industry," Jain said. "It's by no means over."

Banks and securities firms have turned to investors for \$322 billion to replenish reserves after \$403 billion of writedowns and credit losses tied to the collapse of the U.S. subprime market, data compiled by Bloomberg show. Frankfurt-based Deutsche Bank said yesterday it expects to report a profit for the second quarter and currently has no need to raise further capital.

Quoted from Bloomberg, July 3, 2008

News: Code of Conduct for Pension Funds

CFA, the Centre for Financial Market Integrity, Develops Worldwide Applicable Standards

June 25, 2008. For the first time, there exist worldwide uniform standards for pension funds. The "Code of Conduct for Members of a Pension Scheme Governing Body" was presented on Tuesday. It contains ten ethical principles like objectivity or independence for supervisory organs of pension funds. The regulations were developed by the CFA Institute, the Centre for Financial Market Integrity (CFA stands for: Chartered Financial Analysts).

The CFA recommends the voluntary application of the code at the management level. In view of a worldwide pension funds' total asset volume of over 25 billion Dollars and in view of ever more complex investment models, an enormous responsibility is weighing on the shoulders of the members of the supervisory organs of funds. It was said in the explanation.

"In the same way as shareholders trust a managing board, to act in their interest, asset managers are responsible for acting in the best interest of the insured", says Jon Stokes, Director for Standards and Practice." With the acceptance of the regulations, pension funds are demonstrating to their participants and beneficiaries, that the administration of their pension schemes is being done in their best interest", so the CFA. The code does not deal with singles duties or specific functions of managers, but concentrates on principle responsibilities. The principles describe the best practice for all funds, independently from the geographical location.

OECD participates

Apart from countries' specific pension fund associations, also the OECD, the Organization for Economic Cooperation and Development, has participated in the development of the regulations. The new standards are supplementing the OECD guideline for the management of pension funds and are said to offer an urgently necessary worldwide industry standard, underlines Juan Yermo, principle administrator of Private Pension Unit. The ten points obligate pension fund administrators among others, to always act prudently and in the best interest of the participants and beneficiaries of the pension schemes. Prudence, reasonable care, competence, skill, diligence, independence and objectivity are named as additional standards. The compliance with laws and regulations, as well as the regular screening of efficiency and effectiveness of pension plans with regard to obtaining its objectives, are further components of the code of conduct.

Quoted from Börsenzeitung, June 25, 2008

Translated by Helmut Schnabel

News: Creation of an European Rating Agency Is Necessary

Excerpts from an Interview with Austrian Vice Chancellor and Head of Federal Ministry of Finance, Wilhelm Molterer

June 21, 2008.

In the debate about the role of the rating agencies in the financial crisis, you are asking for a genuinely European way, and you support the request of German Chancellor, Mrs. Angela Merkel, to establish an own European rating agency. Why?

This is one of the most innovative proposals, which recently has come on the desk in connection with the financial crisis. On the one hand, what is necessary, is to make the valuation models of the rating agencies overall more transparent. On the other hand, in this industry, also the European ways of thinking and approaching things have to be applied, which will then establish themselves in the market. This would balance the weighting a little bit in the favour of Europe. Because until now – whether the market participants agree to it or not – the financial markets are dominated by the American tradition and culture. The U.S. rating agencies contribute their share to this.

Are American rating agencies evaluating corporations in a different way, than an European rating agency would evaluate them?

I think, this is so. Just take the evaluation of real estate, which is now making so many difficulties, because of the sub-prime mortgage crisis. The European rating agency which would look at real estate, because of the differences in culture, not only with regard to market aspects, might have eventually applied more prudence than an American firm, which handles real estate pretty much like equities. This might have led to other valuation results. From this point of view, Europe should not only participate in the legislative area in the debate about the rating agencies, but it should be a player in this industry in a pragmatic way.

Quoted from Börsenzeitung, June 21, 2008

Translated by Helmut Schnabel

News: Banking Supervisors Draw Consequences from the Crisis

CEBS Presents Paper on Accounting and Transparency – Basel Committee Exacerbates Liquidity Regulations

Frankfurt, June 19, 2008. International banking supervisory authorities have now reacted to the financial crisis with first concrete proposals. The Basel Committee for Banking Supervision wants tougher liquidity regulations whereas the Committee of Banking Supervisors (CEBS) directed by the European Union, wishes a more extensive disclosure of the valuation criteria for financial products in illiquid markets.

The Committee of European Banking Supervisors (CEBS) presented two reports on Wednesday. In the first report the results are presented regarding the investigation of accounting for complex and illiquid financial products. Banks going through the financial crisis have been confronted with the breakdown of the market for structured products. Trading with certain securitized papers did not take place anymore.

According to the international accounting regulations IFRS, and their requirement of accounting at fair value, banks had partly to revert to models, in cases, where market valuations were not significant enough. CEBS is now acquiring from the standard setters for financial reporting, especially from the International Accounting Standards Board in London, which produces the IFRS, to establish guidelines for the fair value evaluation in illiquid markets.

The banks are required to refine the practice of steering and applying valuation models. In addition to that, they are required to safeguard, that all risk factors are being considered when making a fair value accounting. Finally, CEBS is advising more transparency to the banks when publishing fair values and valuation techniques.

In a second paper CEBS analyzed the financial performance reporting in the annual reports of 22 international major banks, among them are 19 from the European Union, for the fourth quarter and the business year 2007.

Tougher liquidity regulations have been proposed by the Basel Committee for Banking Supervision. The banks are asked to comment on the proposed regulations until July 29. The CEBS accompanied this initiative with a paper about liquidity risk management, which itself is oriented at the proposals of the Basel Committee.

The regulators are requesting from the banks a liquidity cushion, which consists of highly qualitative and liquid assets, without loans. The institutes are asked, in addition, to apply stress tests, in order to examine the liquidity risk in different crises scenarios. The Basel Committee will publish, in addition to that, a regular publication of the liquidity risk profile.

Article quoted from Börsenzeitung, June 19, 2008

Translated by Helmut Schnabel

News: China Gets More Attractive for Investments than USA

KPMG-Study: Corporations Prefer China – BRIC-States Attract Capital Streams of Company Groups

Frankfurt, June 17, 2008. China will probably, after the coming five years, become the world's largest recipient of investments from the corporate sector, putting away the USA from this position. This is the result of a study of the auditing and management counselling firm KPMG.

According to the study, 24 % of the interviewed corporations will make greater investments in China in the upcoming five years. With this, China, as investment location for corporations, would become more attractive than the USA (23 %). On the ranks thereafter follow Russia, India, Great Britain and Brazil. Germany ranks number seven with 13 %, ahead of France, Spain, and Italy. (The interviewed corporations could mark more than one country.)

Over 300 decision makers have been interviewed

China will, in addition, take over from USA as the most influential country in the world in information technology, telecommunications, industry production and mining, writes KPMG in the study with the title "Global Corporate Capital Flows", which was officially presented today. For the purpose of the study, the investment strategy experts of over 300 multinational advisors from 15 countries, as well as private equity funds and state owned funds have been asked, how and where, abroad, they would like to spend their money in the next twelve months and over the next five years. As regards attractiveness for corporate capital expenditure in the upcoming five years, especially the USA would loose as well as the United Arabian Emirates and Japan. By contrast, India, China, Russia and Brazil (in this order) would attract more international capital streams from corporations to them, whereby the KPMG study underscores the thesis of the rising BRIC-states. India, which with plus 8 % in the coming five years shows the strongest growth in investments, is said to profit especially from the surrection of the manufacturing industry.

USA still ahead

In the short term, however, the picture is different: Measured against the question, in which country the corporations want to make a major investment in the coming year, the USA, according to the study are on rank one (27 %) followed by China (17%), Great Britain (14%), as well as Germany on the fourth rank (13 %).

Rise in the financial sector

That the USA, within in coming five years, will fall behind China on rank two, is evaluated by KMPG as remarkable, but not as a sign of great difficulties of this world power. Also for the foreseeable future, the USA are said to remain clearly the dominating economic power, which in many sectors will continue to lead.

Whereas China, the biggest strength of which today still seems to be in the industrial production, will catch up in many other sectors. So, China, in the coming five years, will, as regards capital expenditure in the financial services sector, already move up to the third place – behind the USA and Great Britain. Overall, China, until 2013, as economic power,

will step forward to second place behind the USA and will push away Great Britain from this place. China will continue to dominate industrial production, will win worldwide leadership in the information technology, telecommunication and mining, and will advance to rank two in the services sector and in the manufacturing industry.

The steepest increase will be the rise of India, which in the medium term will take over against Japan, France, Russia, as well as Brazil. The interviewed experts are anticipating that India will prosper especially in industrial production and in manufacturing industry.

Germany falling back

The situation in Germany is said to be difficult for the European economy. The country will move, as regards the attractiveness for the investors in the coming five years, from the fourth to the seventh rank, because other countries like the BRIC states and Great Britain will attract more attention. As regards financial services industry, Germany in the medium run will fall back from the third to the fifth place, which it will then share with India. China and Russia are said to take over in this discipline from Germany.

Article quoted from Börsenzeitung, June 17, 2008

Translated by Helmut Schnabel

News: European Union Strives for Supervision of Rating Agencies

McCreevy, Commissioner for Internal Markets, Announces Regulation

Brussels, June 16, 2008. Rating Agencies shall be supervised, in the future, by an external supervision. This has been announced by internal market commissioner Charlie McCreevy on Monday, in his speech in Dublin. The voluntary guidelines, to comply with the standards of the international association of securities exchanges supervisory agencies (Iosco), has proved to be a tiger without teeth.

He said he is extremely sceptical, that one could change this by way of an update and re-enforcement of the voluntary guidelines. For this reason, and after intense talks with the respective bodies and with the agencies, he has concluded, that a targeted regulation of the sector is necessary, said the commissioner. This includes a reporting obligation as well as an external financial supervision and requests for a strongly improved internal management, in order to avoid, that conflicts of interests arise between the various business areas of the rating agencies and with regard to the evaluation of risks. Clear cut proposals will be presented by Mr. McCreevy in the fall.

The rating agencies which evaluate the quality of securities, are accused to be partly guilty for the international financial crisis because they have warned the investors, too late, from the risks of the U.S. American subprime mortgage market. With consideration to their clients, Moody's or Standard and Poor's are said to have ignored too high risks of certain financial products, when evaluating them, and to have reacted too late to the collapse of the subprime market. Until now, the agencies are not under the supervision of agencies comparable to the supervisory agencies for banks, stock exchanges, or insurance companies.

The committee of the European securities regulator CESR has recently recommended to have the voluntary compliance with the Iosco guidelines supervised by an agency. McCreevy now speaks out in favour of a targeted regulation which is tailor-made to the specific role of the rating agencies in the financial market. As the internal control, for instance, of the content of evaluations, or of the income structure of analysts, are important, there must be external supervision for this, said McCreevy. On the other hand, there is no intention, to control single ratings or the calculation models on which ratings are being based. He hopes, that the regulations will induce new offerers of ratings services, to enter the market.

Article quoted from Frankfurter Allgemeine Zeitung, June 17, 2008

Translated by Helmut Schnabel

News: Canada Is Considering the Creation of a State Fund

Finance Minister Flaherty: Fund Stabilizes Capital Markets

Washington, June 13, 2008. Canada is considering the creation of a state fund in order to invest the income from the lucrative oil business in a targeted way. The Canadian finance minister Jim Flaherty called the creation of the so called Sovereign Wealth Fund an interesting idea, and not to be ruled out over time. State funds, as they already exist in countries like China, Norway, Singapore, are said to contribute to the stabilization of the international capital markets, the minister added.

The OECD advises Canada to erect such a fund, in order to somewhat balance off the disadvantages, which the export based economy of the country has due to the revaluation of the Canadian Dollar. The growing international demand for crude oil from the provinces Alberta and Newfoundland, and the high oil price, have increased the value of the Canadian Dollar considerably.

Canada has, behind Saudi Arabia, the second largest oil reserves in the world. So far, the government has used the income from the oil business for decreasing the state indebtedness and for decreasing taxes. The Canadian government budget shows since 10 years a surplus. With this, the financial situation of the North American country is better than that of all other G-7 partners.

According to estimates, existing state funds administer altogether around 2.5 trillion Dollar. Their investment policy is viewed with scepticism, as there is the fear, that they not only pursue economic objectives but also political objectives by way of their investment strategy. Therefore, international efforts do exist to create a code of conduct for state funds.

Article quoted from Frankfurter Allgemeine Zeitung, June 13, 2008

Translated by Helmut Schnabel

News: Ackermann Wants to Liaise Market and Morale

Social Responsibility Is Planned to Be Stronger Integrated into Business Processes

Frankfurt, June 10, 2008. The Deutsche Bank wants to take into consideration, more than before, the social effects of pursuing its businesses. "Social responsibility must be a self evident part of our thinking and acting", said the Chairman Josef Ackermann on Tuesday in Frankfurt am Main on the occasion of presenting the "corporate social responsibility report" of the bank. The bank must show, that market and morale are no opposites. "No business is worth it, to risk the good reputation and the credibility of the bank. "

As most important social responsibility of the bank, Ackermann described its international competitiveness. Because only by this way, Germany's largest financial institution can create value on an ongoing basis for the shareholders, the clients, and the employees. Ackermann has been criticized strongly before in Germany, because he had announced at the same time a high target for performance and a reduction of the number of employees. He now pointed out, that the bank employs more than 78000 employees in 76 countries and thus ensures their economic well being, and that it has educated in Germany in the year 2007 almost 700 young apprentices, and that it has paid 2.2 billion Euro in taxes.

The second priority of the bank is, to make money, as much as possible, in a responsible way, said Ackermann. "The social consequences of our action must matter to us." His words are coming at a time, in which the banking industry is criticized by many as short-term oriented and irresponsible, against the background of too lax loaning practices and of packaging risks in ever new products which then caused the financial crisis. Ackermann announced in addition, that the bank wants to address more the climate change in the future. "We are positioning ourselves on green, in our interest and in the interest of the society." To this belongs not only a variety of business initiatives. But also, for instance the renovation of the headquarter, the Frankfurt Twin Towers, which will advance to two of the most ecologically friendly skyscrapers in the world.

In the past year, Deutsche Bank spent a total of 82.3 million Euro for social and cultural purposes. This was 3 million Euro less than the year before. With this money, the Deutsche Bank also supported micro credits in poor countries and supported education projects in Germany. The communications and corporate social responsibility head of the bank, Stefan Baron, announced, that the bank wants to spend, in the coming years, between 70 to 80 million Euros for social purposes. Since last year, Baron is heading the social responsibility activities of the bank.

Article quoted from Frankfurter Allgemeine Zeitung, June 11, 2008

Translated by Helmut Schnabel

News: U.S. Supervision Wants To Tie Down the Rating Agencies

SEC Debates About Forbidding Counselling Business For Structured Products / Maximum Limits for Gifts Being Requested

New York, June 09, 2008. The rating agencies are getting even more into the defensive. In this week, the U.S. American Financial Supervisory Agency Securities and Exchange Commission, SEC, will probably come out with a recommendation, which would prohibit the rating agencies Moody's Investor Service, Standard and Poor's and Fitch Ratings, from counselling investments banks, about how they can get best ratings for receivables based securities.

The SEC will probably also suggest in its meeting on June 11, that the rating agencies should disclose all information, which becomes part of evaluation. This would make it possible for competitors, to evaluate bonds, even if they cannot get rewarded for this by the issuer. Another initiative of the SEC could aim at creating more transparency about how successful ratings have forecast, in the past, default risks. Also, a recommendation is being discussed, to state maximum annual limits for gifts from issuers to employees of the rating agencies. In addition, the rating agencies might be obligated, to document, in written form, cases, where an investment bank is asking, that certain analysts should not work on the evaluation of a rating for a securities issue.

The five members of the Board of Management of the SEC will discuss, in its next meetings, these proposals, and will decide, whether or not, they will be presented in the framework of a public hearing. After that, the SEC revises the drafts on the basis of the results of the public discussion and finalizes the regulations, which thereby become mandatory, in the framework of a public vote.

The SEC had started its investigations about the business practices of the rating agencies in the last year. The investigations of the SEC concentrated on the question, whether the rating agencies had, at the request of the investment banks, violated SEC-rules. In a next step, such conflicts are intended to be eliminated by proposals from the agency. The chairman of the SEC, Christopher Fox, has announced to the U.S. American Congress to present the results of the current investigations, going on since September 2007, in early summer. Members of the banking committee of the U.S. senate, among them the Chairman Christopher Dodd, are accusing Moody's, S&P and Fitch, that they have given the best ratings to mortgage bonds, but that they had then failed to downgrade such securities early enough, when the subprime crisis led to defaults.

In 2008, Moody's, S&P and Fitch have downgraded more than 20.000 mortgage bonds, or had put their ratings on a watch list. This has contributed to that the banks have incurred depreciations and losses in the amount of 246 billion Euro. The three rating agencies have already made an agreement with the New Yorker prosecutor Andrew Cuomo, to change their business practice.

Cuomo had started, in 2007, investigations about the business practices in the rating industry.

Article quoted from Frankfurter Allgemeine Zeitung, June 10, 2008

Translated by Helmut Schnabel

News: Risks of Insurance Corporations Obviously Limited

Frankfurt, April 17. The danger of a contagion of the European insurers through the financial market crisis seems to be small. They are invested only with a small portion in structured products, which have shown high losses recently. This has re-confirmed Thomas Steffen, the Chairman of the European Committee of the Insurance and Pension Fund Supervisors (Ceios). "I had been afraid, that it would be more, but the risks are transparent and small", said Steffen, who in the German Federal Financial Market Supervision Agency (BAFIN) is responsible for the insurance industry. He said, there is a difference of mentality with regard to the banks: The insurance companies generally pursue a more conservative investment strategy, and they have therefore not thrown themselves into the new products", said Steffen at the International Club of Frankfurt Business Journalists.

In Germany, the legal upper investment limit of 7,5 percent for investment in structured products exists for insurers. Effectively, on average, they have only invested 1,3 percent of their assets in these papers. This is the result of an inquiry by BAFIN at more than 1000 corporations. The risks, however, are concentrated on around 30 percent of all companies, that have been participated. "However, even insurance corporations engaged at the most, remain in the single digit percentage range."

Steffen was criticising as insufficient the cooperation with the U.S. American supervisory agencies. "I am not quite content with a cooperation with USA, especially I would wish to get more information about the monoliners, which are residing predominantly in New York and on the Bermudas." These bond insurers have insured billions of derivatives with high loss risk. "We cannot afford omissions in the supervision", he said. He said, however, that he is confident, that a treaty between the BAFIN and the New Yorker insurance supervisor Eric Dinallo can be reached in the next three to four months.

The new planned regulation for the European insurers, named Solvency II, is on a good way according to Steffen. Some questions, however, are still disputed between European Union member states. There is no agreement, so far, regarding the so called group supervision. "A few national supervisors want rather to control themselves, as they prioritize the national consumer protection", said Steffen. More difficult is the question of equity capital adequacy. With this, it is meant, with which portion of own equity the insurers must underlie their investment portfolio. With regard to equity investments, an underlying own-equity of 32 % is being proposed. Few European Union members states are pleading for 39 %, others for only 20 %. Steffen was speaking in favour of a "equity bumper": When stock prices are falling strongly, the equity adequacy regulations should be lowered, in order to reduce the pressure for selling, which otherwise re-enforces the stock price decrease.

Article quoted from Frankfurter Allgemeine Zeitung, June 17, 2008

Translated by Helmut Schnabel

News: President Köhler of Germany Criticises the Financial Industry

Berlin, May 15, 2008. President Horst Köhler of Germany has strongly criticised the financial industry in an interview to the magazine "Stern". Key quotations are: The financial industry has made itself ridiculous. One has to make it look into a mirror. The international financial markets have developed into a monster, which must be pushed back into its limits. The irresponsibility of bankers must be criticised who partly receive bizarrely high remunerations.

The bankers, he said, have quite obviously not understood anymore at the end, how the derivatives functioned, which they had created before. The over-complexity of the financial products and the possibility, to lever big businesses with smallest equity, have made the monster grow. It hardly has any relationship to the real economy anymore. The world, he continued, has got close to collapse of the entire financial system. And, he continued, he is missing a clearly understandable apology from those responsible in the financial industry.

The financial crisis, so he went on, has been caused by an under-pricing of risk. Credits, are said to have been too easily obtainable and too cheap. Capitalism, he said, is not just to make performance, but especially to be able to handle risks. Many managers in banking corporations, he said, have not had this capability. Risks are said to have been underestimated, especially easily in cases, where there was no personal liability for the managers. What is necessary, he went on to say, for the future, is to practice responsibility and solidarity at the same time, without shutting down the market and the price mechanism.

The remarks of the German president have caused waves of heavy discussions in the country, which tapered off, though, when other emerging facets of the ongoing crisis got more attention.

It is not unusual, in recent years, that German politicians are harshly attacking players in the financial market. As an example, the former Vice Chancellor of the great coalition and former leader of the social democratic party, Mr. Franz Müntefering, had called hedge funds "locusts" which fall over a green field, eat away all the green, and then move on after devastation. Since then, this word ever again emerges in public debates.

Article quoted from Stern Magazine, May 15, 2008

Translated by Helmut Schnabel

News: Financial Crisis Is Developing into a Tough Test for Fair Value Accounting

By Markus Frühauf, Frankfurt, April 15, 2008. The accounting at fair value is undergoing a first tough test. The financial crisis, and the need for depreciations at banks estimated at several 100 billion Dollars, have given rise to critique of the international accounting standards (IFRS) and U.S. GAAP. Now, on the weekend, also the financial stability forum (FSF), which supervises the financial system with regard to its propensity to risk, and to which belong representatives of finance ministries, supervisory agencies, and central banks as well as international organizations, has asked for a reform of the IFRS.

Illiquid markets as a serious situation

The collapse in markets with structured products, caused by the U.S. real estate crisis, has created the most serious situation. There are no liquid markets for these securitized papers. For this reason, there exist no prices, which can be used as balance sheet valuations. As a way out, the banks have valuation models. The solution here is called mark-to-model instead of mark-to-market. The problem, however, are the ranges in the evaluation between institutions, as the models are based on assumptions.

Accordingly, the Institute of International Finance, IIF, in the last week, has called for a broad dialogue. This international financial association, the Chairman of which is the Deutsche Bank Chairman Josef Ackermann, wants to have binding regulations for the evaluation of illiquid markets. As first step, it has pleaded for a broad dialogue between external auditors, rating agencies, investors, analysts, and supervisory agencies. The IIF calls for a joint code of conducts as regards reporting about the assumptions and estimates, on which valuations models are based.

Accordingly, the investor should get insight into the model world of the balance sheet producer, in order to be able to distinguish between cosmetic models and models, aiming for transparency. Also the Association of German banks (BdB) has asked for an improvement of the transparency about the evaluation of financial instruments in its position paper "Lessons to be Learned from the Financial Market Turbulences".

The reason is a lack of transparency

"In the meantime, a significant portion of the need for depreciation, is not stemming from sub-prime papers, but from securities with good credit worthiness, for which, because of the ongoing confidence crisis, there are at present no liquid markets.", said Manfred Weber, Managing Director of the BdB. The reason for this is distrust of investors, to which also belong the banks, and also the lack of transparency of many collateralized papers. For instance, the collateralized obligations are themselves based on other collateralized papers, and they include the risks of thousands of individual loans. Nobody is anymore in the position, to evaluate the risk of such papers, regardless of whether U.S. real estate credits or credit cards receivables are contained.

Additional insecurity

As right, as it is, to request a level playing field, with regard to accounting regulations, as false it would be, to put into questions, the accounting regulations at large. Weeks ago, Ackermann has hinted at this problem. As a matter of principle, he was speaking in favour of

more transparent financial statements which are also comparable among banks. However, the discussion should not be carried out at the present time, as this would carry further insecurities into the market, he said.

However, the IIF has now created itself the need for discussion. Because this international association is pointing at the fundamental problem of fair value accounting, and its effect of pro-cyclicality. The President of the German Savings Association has also pointed at the same problem. As well the IIF, as well as Mr. Haasis are fearing a downwards spiral. Therefore, the international financial association wants to think about modified valuation techniques in dried up markets, or about the implementation of hedging systems. However, the IIF bases its proposal on the assumption, that the present proposals, to be elaborated, should not serve to avoid losses. Also, the financial lobby underlined, that the pro-cyclicality of the fair value accounting has to be discussed long-term. However, the discussion is in full swing already.

The crisis-reinforcing-effects of the fair value accounting have not been considered sufficiently so far, criticizes Mr. Haasis. The BdB is asking for non-application of the daily market evaluation retroactively as of January 1st, 2008. It is to be questioned, whether thereby trust into the accounting and thereby in the transparency of banks can be created. It should not be forgotten, it is said, that causes of the crisis are a wrong business policy, pointed out Mr. Cristopher Pleister in the last week.

Digest lessons

The president of the German Federal Association of Mutual Banks and Raiffeisen Banks, regards the IIF-proposal as making sense, to establish a working group of everybody concerned in order to work out the lessons from the temporary exaggeration phase. However, he was speaking against prematurely calling for changes of the regulations or for changes in the accounting standards.

Also in the present debate about the accounting standards, it appears, that the middle of the road way is the golden way. It cannot be in the interest of the banks, to put into question the entire framework of regulations. In the end, they would themselves thereby undermine trust in the shown results. However, there still are big points, especially as regards the valuation models. Here, IFRS und US-GAAP are called upon to create uniform criteria.

More convergence is also necessary as regards the own credit-worthiness of banks. Because in this field, according to US-GAAP, the accounting banks can book a positive performance effect, when the value of buying back their own outstanding securities has sunk by way of downgrading of the rating. The IFRS is here significantly stricter.

The value of trust

The critique of pro-cyclicality, however, is putting the fair value evaluation into question as a principle. When markets are going up, nobody among the balance sheet producers has a problem with it. The necessity, to depreciate papers, for which there are hardly any more markets, is only consequential in the fair value logic. Because investors have withdrawn trust in them. And trust in a product is decisive for its value. For no industry it is more important than for banks.

Article quoted from Börsenzeitung, April 15, 2008

Translated by Helmut Schnabel

News: Code of Conduct for Hedge Funds

Commission of Experts Is Asking for Better Information and Stronger Risk Management

Washington, April 15, 2008. Hedge funds should inform better, in the future, about their activities in the financial markets, and should also improve their risk management. These are the recommendations of two commissions of experts, which the U.S. American Finance Ministry has created in the last fall. Hedge funds, but also other market participants, must better control their engagement with an effort, to limit risks. In order to reduce the danger of systematic financial crisis, a high transparency is necessary with regard to those assets, the valuation of which is difficult, because of their high complexity.

The U.S. American finance minister Henry Paulson called upon the hedge fund industry, to pursue the recommendations. "If these recommendations are accepted, and if a code of conduct will be applied by market participants, then this is a further step, in order to support the normalization of the financial markets", Paulson said on Tuesday. The recommendations are designing a voluntary code of conduct for hedge funds. At the present time, there exist almost 8000 such funds which in many cases take up high loans from banks and other market participants in order to then invest the money in risky, but potentially highly yielding securities. Hedge funds are administering assets of around 2 billion dollars.

One of the two committees was composed of fund managers, among others from the hedge fund Eton Park Capital Management. Its proposals for a code include that at least once per quarter information should be given about the engagement in those securities, difficult to be valued, which are not traded in the normal capital market, and for which accordingly no normal price is being made. To the other committee, under the leadership of the California Public Employee's Retirement System (Calpers), the largest U.S. American pension fund, belonged also a number of investors, who invest part of their moneys in hedge funds. These recommendations aim at giving the investors a better possibility to evaluate hedge funds, and to be better able to decide, whether an engagement in a hedge fund is adequate and right for their customers. "It is our target, to make our guidelines for a code of conduct the ongoing practice among all hedge funds and their investors", said Russell Read, who is responsible at Calpers for the asset management policy.

The U.S. American plans for a code of conduct are aiming in the same direction, as well as attempts by the German Federal Government. The German Federal Government had spoken up, during its last year's G-7-Presidency, to also create voluntary self-regulations by the hedge fund industry, for instance with regard to their risk management. As German federal finance minister Mr. Peer Steinbrück said on the occasion of the spring conference of the IMF, the subject is not to regulate hedge funds in Germany, but to increase their transparency. Also, the U.S. American government is against a stronger regulation, and it points out, that hedge funds contribute, by way of their investment policy, to the efficiency of financial markets – at the benefit of all market participants. Finance minister Paulson has the view, that disciplining by the market is the better means. Hedge funds are most often only open to very rich investors for direct investments. Millions of U.S. Americans are, however, indirectly engaged in hedge funds, because their pension funds – like Calpers – have invested money there.

Article quoted from Frankfurter Allgemeine Zeitung, April 15, 2008

Translated by Helmut Schnabel

News: Banks Propose Code of Conduct

The President of the International Bankers Association, and Deutsche Bank Chairman Josef Ackermann, has presented proposals how to avoid further financial crises. The industry counts on a Code of Conduct and pleads for a regulation of the Rating Agencies.

Frankfurt, April 9. The international bankers association IIF wants to re-produce, by way of a code of conduct, the confidence in the industry and prevent an additional government regulation. "We shall do everything, in order to purify ourselves, our corporations and we shall not leave this to the legislator", said president of the institute of international finance (IIF), Josef Ackermann. "We have the ability, to deal with the problem quickly and independently."

The IIF, to which belong more than 375 financial institutions worldwide, presented for this a catalogue with 98 proposals in Frankfurt which includes a voluntary obligation for the industry, a tougher supervision for rating agencies and a change in accounting regulations. "We are conscious, that all of us have made mistakes", said Ackermann in the evening on TV. The industry will do everything, in order not to repeat such mistakes. He showed confidence, that the markets would stabilize in the second half of 2008.

Politicians, central bankers, and supervisory agencies are debating since 3 quarters of a year, in view of the ongoing financial crisis, to regulate the banking industry in a tougher way. In the past week, the finance ministers of the European Union have decided to support up to 30 European banking groups by way of putting public expert committees to their side. On Friday, in addition, the finance ministers and central bank governors of the seven most important industrial nations (G7) are dealing with the subject in Washington.

In his report, the IIF proposes, among others, to improve the risk management, and to relate the remuneration of the bankers to the long term success. In some cases, the financial incentives are said to have had the result, that bankers took too excessive risks, Ackermann admitted.

Tougher laws are repudiated by the bankers association – with the exception of the U.S. American mortgage brokers, the lax loan making of whom has been part of creating the crisis. Rather, the pressure of the market should force the banks, to comply with respective voluntary regulations, said Cees Maas, one of the two Chairmen of the respective IIF-Committee. This former Vice Chairman of the board of the ING Banking Group said, that tougher regulations are necessary with regard to the rating agencies. These companies should be put under an independent external control, he said. He did not mention any details, and he mentioned, that there is a disagreement on this between banks and rating agencies. Rating agencies have been reproached, by saying, that they had made severe mistakes at the evaluation of mortgage bonds as well as newly created structured financial products.

The IIF urges in addition, as well as the German Association of Bankers, to make changes in the accounting regulations. It is said, to have the highest priority, to cope with the weakness of the presently prescribed valuation method of assets according to their fair value prices. Banks, banking regulators, and auditors should now look quickly for acceptable ways, to change the rules in such a way, that the destabilizing downside spiral that forces sales and depreciations, should be stopped. "However, in this context, we do not want to hide charges", said Maas.

The IIF-proposals had a varied echo. The president of the German Federal Financial Supervisory Agency (BAFIN) Jochen Sanio, called the international accounting standards in an interview with the weekly journal "Die Zeit" as "fire accelerator". As the banks are being forced to value financial products at market prices, the negative development of value is being overstated.

On the other hand, the German Association of Mutual Banks spoke up against changes in the present accounting regulations. The causes for the crisis are said to wrong business policy.

Overview of the proposals:

Improvement of the risk management:

The risk management should serve, in the future, not only for the control, but it should also be part of the corporate strategy. The willingness to encounter risk, as decided by the board of management, must be clearly communicated in the corporation.

Capital market supervision:

A group of 10 – 20 high quality financial experts should, as a kind of early warning system, warn from possible market risks.

Remuneration systems:

The remuneration of bank employees must, by way of preliminarily retaining bonuses, or by other mechanisms, not be liaised with the short-term profitability but with the long-term profitability of the corporation.

Liquidity management:

Instead of having to comply with general rules of the management of liquidity, each bank should tailor-make the liquidity risks to its business model.

Providing liquidity:

The central banks, when providing re-financing facilities, should accept more different assets than so far as securities.

Valuation of assets:

There is an urgent need of dialogue between banks and supervisors, and external auditors, about the principle of valuation at present market prices. There is a quick need to find out, whether there are possible ways, in order to limit the destabilizing downside spiral of forced auctions, depreciations, and increased risk premiums, which result from the "mark-to-market" principle.

Rating agencies:

The valuation procedures of rating agencies should be put under an independent external control.

Transparency:

The quality of the information about structured products must be improved. It is to be discussed, whether issuers of such products must publish whether or not they keep part of an issue on their own books.

Article quoted from Frankfurter Allgemeine Zeitung, April 10, 2008

Translated by Helmut Schnabel

News: Damages from the Financial Crisis Estimated at 1 Trillion Dollar

The International Monetary Funds Sees also the Liquidity Policy as Culprit. Banks Should Create Transparency, Tighter Supervision Is Said to Be Necessary

Washington, April 8. The crisis at the financial markets is by far not yet over. The losses, which the banks and other market participants incur from their risky engagement in the U.S. American mortgage market, could at the end amount to 565 Billion dollar. If one includes other loans and securities which have been pulled into the crisis, the total amount could even reach 945 Billion Dollar. Against this, capital market experts of the international monetary fund (IMF) are warning in their newest report on the stability of the global financial system. In this report, the economists, under the leadership of the former Spanish central bank governor Jaime Caruana, give a number of advices, how the crisis could be overcome and how measures could be taken, in order to avoid similar events in the future.

“What has started as a problem in the U.S. American mortgage market, that has now spread into a number of other credit markets. This is burdening the balance sheets of the banks and of other market participants quite considerably and creates additional tensions of the financial situation”, said Caruana on the occasion of presenting the report. The efforts of banks, investments banks, hedge funds and others, to reduce the risks in their portfolios, are not yet finished. In addition, there is a dimmed business climate in the USA, which in addition puts pressure on the financial sector, consumers and corporations.

In the meantime it is said to have become evident, that the present turbulences are not just a liquidity crisis of the banking system, but also of other deeply rooted problems in the balance sheet, and a too small equity. “ In the short run, it is now most important, that the market participants quickly create transparency about their engagement in the complicated financial products and regarding the necessary need for depreciation”, said Caruana.

It cannot be avoided, that those financial institutions, which play a central role for stability for the entire system, now quickly repair their balance sheets and solicit additional equity, even if this is more expensive under the present circumstances.

According to the words of Caruana, it is important to understand, that not the securitisation of receivables per se has led to the crisis, but a combination of too lax standards in making mortgage loans, especially to borrowers with bad creditworthiness, as well as the bundling of the securities into very complicated and hardly transparent financial products. An excess of liquidity is said to have contributed, in addition to that, that risks have been neglected and not sufficient equity has been provided as securitization, said Caruana.

Central banks, like the U.S. American Federal Reserve, the European Central Bank, and also the Bank of England, should continue to attempt, to reduce market turbulences by targeted liquidity infusions and to safeguard the stability of the financial system. At the same time, the currency supervisors should also think about, as to how much, possibly, the liquidity policy is contributing to a lessening of discipline in making loans.

In the view of IMF, there is the necessity, to re-regulate the financial supervision, not least in USA. But there should not be acted in a hurried way, in order not to reduce the innovation power of the financial markets. But it is necessary to have a tougher supervision for those banks and other financial institutions, which make mortgage loans. They should, in the future, always carry a certain risk from the loans made, and should not sell the total of the loans to other market participants. For the supervisory authorities will come the task, to take a closer look at the liquidity management of the market participants than so far, says the IMF.

Article quoted from Frankfurter Allgemeine Zeitung, April 9, 2008

Translated by Helmut Schnabel



Österreichisches Produktivitäts-
und Wirtschaftlichkeits-Zentrum



Das österreichische Mitglied der IAFEI International Association of Financial
Executives Institutes und der IGTA International Group of Treasury Associations



INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

The Austrian CFO Study

The Rise, Evolution and Future Path of the Austrian CFO

February 2007



A Message

from the IAFEI Chairperson



DR. CONCHITA L. MANABAT

On behalf of IAFEI, I am pleased to present the fifth country-specific study undertaken in pursuit of its 2006 Global CFO Study Initiative – The Austrian CFO Study Report (February 2007) – a discussion on the Rise, Evolution and Future Path of the Austrian CFO.

Finance professionals today possess a unique and enviable position in business history. All at one time, they bear witness to the increasing complexity, chaos, and competitiveness of the global marketplace. This is exclusive of the many other changes they encounter in their own structures and domains.

But while some remain as mere bystanders to the parade of dynamic changes, the CFO has been cast, wittingly or unwittingly, in the limelight. In recent years, the CFO has emerged as a leader of the organization in the truest sense of the word. Gone are the days when one would instinctively restrict the CFO jurisdiction to financial reporting, controllership or financial planning. As regards key decisions, the CEO, in varying degrees, has learned to rely on the CFO. IAFEI launched the Global CFO Study to understand the importance and evolving phenomenon of the Global CFO role. IAFEI had undertaken a comprehensive and coherent analysis, initially on a per-country basis, of the transitioning role of the Global CFO.

The Global CFO Study plans to cover and measure CFO perceptions to obtain a deeper and broader understanding of transitions in the CFO profile (background, skill sets and skill needs), his position and priorities (trends in the CFO functions, priorities, challenges and focus), and his current and future career paths.

We are grateful to Ferdinand Hacker, Chairman of Forum Finanzen-OPWZ, for partnering with IAFEI in this significant undertaking. We also thank the leadership of Forum Finanzen-OPWZ for their committed collaboration and unyielding support, without which, this Study would not have been possible. Finally, we extend our utmost gratitude to the Forum Finanzen membership, CFOs and finance leaders alike, who made the time to participate in the survey and share their perceptions, insights and experiences.

I do hope that the Study proves helpful in providing readers with meaningful insights on CFO trends in Austria.

Dr. Conchita L. Manabat
2005-2006 Chairman
International Association of Finance Executives Institutes

A Message

from the Forum Finanzen Chairman



FERDINAND HACKER

Globalization of financial markets and internationalization of business are leading to massive changes in industry and their single specific functions. So obviously the functions of CFO are changing even in smaller countries as Austria too.

This is exactly the intention with which IAFEI, the International Association of Financial Executives Institutes, is embarking on the project 2006 of "The Global CFO Study, the rise, evolution and future path of the global CFO". The study is an "attempt to assess the evolution, rise and future path of the global CFO by examining the profile, position, priorities, persona and career path of CFOs in countries across the world."

Therefore Forum Finanzen–OPWZ as the Austrian national member of IAFEI welcomed very warmly the proposal to have a closer look at these changes and the consequences for Austrian CFOs.

In many respects the results follow the informally discussed and expected items and encourage us to continue our way of information transfer and updates to our members for keeping up with the challenges they have to face.

We are happy to present to the reader this articulate study. Our thanks go to IAFEI Chairperson, Conchita Manabat, and to her team led by Pamela Cariño, who have both, with additional help of Deloitte Philippines, analyzed the filled out questionnaires and composed the attached final study.

Ferdinand Hacker

Chairman of Forum Finanzen–OPWZ
Austria

Highlights of Key Findings

CFOs see significant transitions in their function, focus, priorities and challenges and are consequently reassessing their skill set and education needs. Changes in the 'CFO experience' are making CFOs better prepared for the CEO role, and many CFOs expect to assume CEO positions during their careers.

TOPIC	HIGHLIGHTS
Career Progression	Approximately 64% of the financial executives are confident that their CFO experience has prepared them to take on the CEO function. This confidence seems to spill over to the aspirations of a good portion of the CFOs polled. A solid block (c.39%) have expressed their readiness to take on the corporate reins as CEOs.
Traditional and New Responsibilities	The Austrian CFO will continue to be accountable for both the traditional and new sets of responsibilities; however, whereas in the past, the traditional responsibilities took center stage, going forward the Austrian CFO will have to responsibly manage both sets using a healthier mix, one that takes into account today's raging issues of corporate governance and risk management.
A Transitioning Focus	CFOs expect to spend an increasing amount of time on corporate strategy formulation, M&A transactions and corporate governance. CFOs spent c.19% of their time on these functions three years ago, and expect take it up a notch three years from now (c.31%).
A Highly-Evolved Role	It is interesting to note that, while major changes have happened to increase the role of the Austrian CFO in the area of corporate strategy, the CFO does not foresee himself playing a leadership role in the company.
New CFO Skills	Whether it is acquiring a new skill that would hopefully equip the CFO with a better understanding of his firm's processes and operations (finance-related IT skills), or a skill that would assist him in steering the firm to uncharted territory (regulatory compliance and marketing/sales skills), the Austrian CFO needs to be multi-dimensional in profile, background, and performance.
Breed of Financial Leaders	Skills associated with accounting and treasury, though highly-regarded in the past, are seen to lose their pre-eminence in the range of ideal CFO educational backgrounds.
CFO Accreditation	Asked whether CFOs thought that a 'Global CFO Accreditation Program' was necessary, given the unique combination of skills and knowledge required of CFOs, the majority of CFOs surveyed (c.53%) were ambivalent in their replies.

Conclusion

The Austrian CFO experience is clearly not only expanding in scope, but also in expectations, with CFOs increasingly involved in corporate strategy formulation, M&A transactions, and corporate governance. Even with this highly-evolved role, and accompanied by a new sense of confidence, it remains to be seen whether the Austrian CFO will naturally assume a leadership role in the company.

The Austrian CFO has realized that the breadth and depth of his function have led him to place less importance on educational skills usually associated with accounting and treasury. Instead, he has also learned to value finance-related IT skills, as well corporate governance and marketing & sales capabilities.

These trends are interesting, as they point to CFOs taking on greater segments of the CEO's job and blurring the zones of responsibility between the CEO and CFO functions. There is some expectation that these trends will continue to unfold in the coming years. Where would these changes lead the Austrian CFO? Will everything come to a halt as the CFO assumes a co-leadership role with the CEO, or will the Austrian CFO take on the corporate reins in due time?

Methodology



The Austrian CFO Survey was undertaken by IAFEI in partnership with Forum Finanzen-OPWZ, with the objective of measuring the perceptions of CFOs in Austria on the rise, evolution and the future path of CFOs.

Professionals from the Deloitte-Philippines practice provided survey implementation assistance. The survey was conducted via email using a survey questionnaire circulated during the summer of 2006.

It was sent to Forum Finanzen-OPWZ members, i.e., CFOs and senior finance executives, and had a response rate of 12% of the active membership base.

About Forum Finanzen-OPWZ

Financial management is one of the core functions of industry and services. The Forum was founded in 1977 as "Gruppe Finanzchefs im OEPWZ" by OPWZ, following a proposal of financial experts from industry and trade firms. The membership is a corporate membership regularly and well known firms of Austria are represented.

Since its foundation, the scope of the forum still has been to offer a platform for exchange of experience and meeting with experts on specific matters as taxes, controlling, treasury, banking & finance and consulting. The members frequently present their "best practice experience" in a comfortable atmosphere to their colleges and debate actual developments on tax laws, balancing, international business and corporate development, as well as questions of corporate leadership. Up to 12 times a year they come together in general and specific working groups. The year-end meeting is the highlight of the program presenting members and guest speakers on main items and future developments.

About IAFEI

IAFEI is a federation of Financial Executive Institutes of countries across the world, and is a private, non-profit, non-political organization, domiciled in Switzerland. With 15 member-institutes comprising more than 130,000 financial executives, IAFEI is the only global organization of its kind. IAFEI provides networking, visibility, advocacy and information access opportunities to member institutes and their individual members through quarterly publications, regional summits, global research projects and the annual world congress. Please visit the IAFEI website, www.iafei.org, for more information.

About Manabat Delgado Amper & Co. (Deloitte Philippines)

In the Philippines, Manabat Delgado Amper & Co. (formerly C.L. Manabat & Co.) is the member firm of Deloitte Touche Tohmatsu. The Philippine member firm is among the nation's leading professional services firms, providing audit, tax, consulting, and financial advisory services. Known as an employer of choice for innovative human resources programs, it is dedicated to helping its clients and its people excel. For more information, please visit the Philippine member firm's website at www.deloitte.com/ph.

- **IAFEI meeting in New York, USA, April 8th, 2008, with the financial executives institutes “FEI-USA”, “FEI-Canada”, “IMEF-Mexico”**
 - **Report on the meeting, April 18, 2008, for IAFEI Quarterly, fourth issue, July 1st, 2008**
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The meeting took place at the Waldorf Astoria Hotel in New York, N.Y., USA, and lasted one hour and forty minutes. It was held in an open and constructive atmosphere. The meeting was a small part of a larger gathering of 1,5 days of the 3 financial executives institutes from USA, Canada, Mexico, held at the invitation of FEI-USA and called “Financial Executives Global Committee”.

Attendants to the meeting were:

Daniel Burlin, Vice Chairman IAFEI

Michael Cangemi, President and Chief Executive Officer FEI-USA

Michael Conway, Chief Executive and National President FEI-Canada

Luis Ortiz Hidalgo, Member of the Board of Management, Instituto Mexicano de Ejecutivos de Finanzas (IMEF)

Grace Hinchman, Senior Vice President, FEI-USA

Fernando Liceago, Member of the Board of Management, Instituto Mexicano de Ejecutivos de Finanzas (IMEF)

David Morris, Chair, Financial Executives Global Committee

Helmut Schnabel, Chairman IAFEI

Augusta Sergio Paliza Valdez, Member of the Board of Management, Instituto Mexicano de Ejecutivos de Finanzas (IMEF)

The meeting was initiated with a 20 minutes presentation on “IAFEI: A Revitalized and Growing Association”. A handout with key facts on IAFEI was given to all participants.

Key points of the IAFEI presentation were: history, objectives and purposes, membership fee, main resources, organization, advocacy examples, trademark registration, upcoming and future events, programs and initiatives (IAFEI website, IAFEI Quarterly, IAFEI World Congresses, IAFEI Global CFO Study, IAFEI ad hoc task forces on professional subjects), recent period of distress in 2003 and 2004, the following revitalisation and restructuring program, and the ensuing and continuing growth phase of IAFEI.

The following vivid discussion centred on all aspects of IAFEI, some, but not all of which, were: type of membership, large number of members institutes, with their own full-time professional staff, versus smaller club type member institutes, with no administrative staff; strong regional representation of IAFEI in Asia and Europe; World Congresses (nature of professional programs, number of attendants); Global CFO Study; potential subjects for IAFEI Task Forces; Upcoming IAFEI World Congress December 14 – 17, 2008, in Paris, France, joint search Grace Hinchman and Armand Angeli, France, for speakers from USA; new IAFEI By-Laws, amended in 2004; collecting sponsoring money; voluntary, free of charge, professional input of IAFEI officers, financial executives individuals, IAFEI member institutes, being the main resource of IAFEI; whereas the present financial resources of IAFEI do not permit for the employment of professional staff; etc.

The near to completion trademark registration of IAFEI around the globe in the Madrid Protocol member countries greatly interested the attendants to the meeting as it reflects the branding and recognition of IAFEI as a truly international association of financial executives. IAFEI has intentionally borne the high cost of such trademark registration in order to enhance its identity and uniqueness.

IAFEI pointed out clearly that all three financial executives institutes, present in the meeting, are most welcome to rejoin IAFEI at any time and that IAFEI keeps the doors wide open for them rejoining at any time, and that they are invited to attend the IAFEI World Congresses. All participants to the meeting pointed out: Let us forget about the past, let us have no bad feelings (meaning the cancellation of the 2001 World Congress in Mexico and the period of distress and near collapse of IAFEI in 2003 and 2004, when several member institutes left IAFEI). We all agreed to look into the future, at when and what can be done there.

FEI-USA pointed out that they want to and have to become more international and international minded. How, is still an open question, and they are looking at all options and possible ways. No mention was made by all 3 institutes present, whether or not they are thinking about re-joining IAFEI and whether or not this might happen. However, the 3 Institutes feel that open communication with IAFEI leadership is helpful and will continue to evaluate the member “value proposition” in rejoining IAFEI. FEI-USA mentioned that its members already have too much information to take notice of, and that therefore it will not distribute the IAFEI Quarterly, the electronic professional journal of IAFEI, to its members, but that IAFEI should continue to send such Quarterly to the 3 present representatives of FEI-USA and they will determine what information should be sent to their respective members. - There is the understanding, that the associations which were present at the meeting, should keep in touch in the future.

Please turn over

Addendum July 3, 2008

During May, 2008, IAFEI got the news, that Mrs. Grace Hinchman, Senior Vice President, FEI-USA, has left the association. Subsequently, she has accepted the position as *Chief Executive Officer* of the *American Academy of Actuaries*.

During the course of June 2008, IAFEI got the news, that Mr. Michael Cangemi, President and Chief Executive Officer of FEI-USA, who had joined the association in January, 2007, has again left the association in June 2008.

Up to now, IAFEI has received no information as to by whom the two vacancies at FEI-USA have been re-filled.

IAFEI news, activities

IAFEI Task Force Rating Created

The long announced IAFEI Task Force Rating has been created. IAFEI member institutes participating in this Task Force, are from China, France, Germany, Italy, the Philippines. The Task Force will start its work with immediate effect.

The IAFEI Board of Directors has appointed the following two persons as Task Force Leaders:

- **Mr. Dr. Zhang Chengdong, Chairman Asia, IAFEI Task Force Rating.**
Director of Research Department of CACFO, China, Association of Chief Financial Officers
E-Mail: 'zzccddcfo2008@tom.com'

- **Mr. Gabriele Fontanesi, Chairman Europe, IAFEI Task Force Rating.**
From ANDAF, Associazione Nazionale Direttori Amministrativi e Finanziari, from Italy
Mr. Fontanesi is a past Board Member of ANDAF, a past Chairman of IAFEI, the present ANDAF Head for International Affairs, and the present President of the ANDAF- chapter Emilia Romagna.
E-mail: gabriele.fontanesi@Starwoodhotels.com

IAFEI member institutes, which have so far not joined the IAFEI Task Force Rating, continue to be welcome to join this task force, now, or at a later stage.

IAFEI and AFP-USA Separate from One Another

AFP, the Association of Financial Professionals of the USA, is not any longer a member of IAFEI. It so turned out, that the objectives of AFP are too different from the objectives of IAFEI. Both associations have recognized this, and they have agreed with the separation. Both associations have also agreed, to stay in touch over time to come.

Please turn over

Asia Pacific IAFEI CFO Summit September 5, 2008, Taipei, Chinese Taiwan

For details and for booking procedures, see:

www.iafei.org .

XXXIX IAFEI World Congress, Paris, France, December 14-17, 2008

For details and for booking procedures, see:

www.iafei.org .